Financial Statements of

HOSPITALITY NETWORK CANADA INC.

December 31, 2005

President's Message

Hospitality Network, Canada's leading provider of television and telephone services in hospitals and senior's care homes, is now a wholly owned subsidiary of SaskTel after the remaining minority shares were obtained in 2005. Our head office is in Regina, Saskatchewan with 335 full and part-time employees nationwide including 39 in Saskatchewan. The company has been profitable since 2000 and continues to evolve its products, pursue growth opportunities and build value for its shareholders.

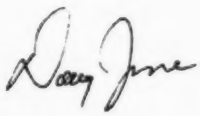
We are in the business of providing communication and entertainment services to two segments of the Canadian healthcare industry – acute care hospitals and senior's care homes. Our acute care division is the largest operator of hospital patient television and telephone rentals in Canada, and our senior's care home division is the leading provider of a managed communication and entertainment solution. With over 38 years of experience, HN provides services to over 225 healthcare locations nation-wide.

Our primary focus is to recognize and understand the Canadian healthcare environment and the challenges that it faces. Hospitality Network continually strives to introduce new services to our hospital clients that enhance the patient in-hospital experience and generate additional revenues for the hospitals. New services that have been recently deployed or are under development include: automated patient rental services, clinical applications at the bedside, patient internet access, and bedside long distance operator services.

Hospitality Network's total revenues for 2005 were approximately $21 million with 95 percent generated outside of Saskatchewan. Earnings before interest, taxes, depreciation, and amortization (EBITDA) represented approximately 25 percent of our revenues.

As a subsidiary, Hospitality Network is a strategic component in SaskTel's overall business plan of leveraging core competencies. By contributing positively to SaskTel's profitability since 2000, Hospitality Network has become a key part of its long-term plan to replace diminished revenues from traditional services.

We believe that Hospitality Network is well positioned for future growth opportunities and that it will continue to evolve its products and build value for SaskTel. In closing, I must thank our employees for another successful year for Hospitality Network, and extend our gratitude to our loyal customers across the country.



Doug Jesse
President and CEO, Hospitality Network

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AUDITORS' REPORT

To The Member's of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Hospitality Network Canada Inc. as at December 31, 2005 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 8, 2006

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Consolidated Statement of Operations

For the years ended December 31, (Thousands of dollars)	2005	2004
Operating revenues	**$21,654**	$19,726
Operating expenses	**12,319**	11,053
Gross profit	**9,335**	8,673
Selling, general and administrative expenses		
Selling and administrative	**3,954**	3,462
Depreciation and amortization	**2,055**	1,913
	6,009	5,375
Operating income	**3,326**	3,298
Other income (expense)		
Interest income	**67**	59
Interest expense on long-term debt	**(784)**	(874)
Non-controlling interest	**(26)**	(25)
Net income	**$2,583**	$2,458

See accompanying notes

Consolidated Statement of Retained Earnings

For the years ended December 31, (Thousands of dollars)	2005	2004
Retained earnings, beginning of year	**$5,637**	$3,304
Net income	**2,583**	2,458
	8,220	5,762
Transfer to Contributed surplus	**324**	-
Dividends	**130**	125
Retained earnings, end of year	**$7,766**	$5,637

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2005	2004
Assets		
Current assets		
Cash and short-term investments (Note 4)	**$4,226**	$2,272
Accounts receivable	**1,178**	1,606
Inventory	**557**	544
Prepaid expenses	**185**	318
	6,146	4,740
Property, plant and equipment (Note 5)	**12,786**	12,352
Deferred costs (Note 6)	**1,484**	1,547
Intangible assets (Notes 3, 7)	**1,008**	-
Goodwill (Note 3)	**11,377**	12,111
Investment in capital leases	**128**	150
	$32,929	$30,900
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	**$1,094**	$1,452
Current portion of long-term debt (Note 8)	**440**	412
	1,534	1,864
Long-term debt (Note 8)	**12,697**	13,137
	14,231	15,001
Non-controlling interest	**159**	133
Shareholders' equity		
Share capital (Note 9)	**8,999**	8,986
Contributed surplus (Note 10)	**1,774**	1,143
Retained earnings	**7,766**	5,637
	18,539	15,766
	$32,929	$30,900

See accompanying notes

On behalf of the Board

Robert Watson

Randy Stephanson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2005	2004
Cash provided by (used in):		
Operating activities		
Net income	$2,583	$2,458
Items not affecting cash (Note 11)	2,094	1,938
Other operating items (Note 12)	185	(170)
	4,862	4,226
Financing activities		
Repayment of long-term debt	(412)	(321)
Dividends paid	(125)	(100)
	(537)	(421)
Investing activities		
Property, plant and equipment expenditures	(1,785)	(2,559)
Deferred costs	(608)	(594)
Investment in capital leases	22	26
	(2,371)	(3,127)
Increase (decrease) in cash	1,954	678
Cash and cash equivalents, beginning of year	2,272	1,594
Cash and cash equivalents, end of year	$4,226	$2,272
Comprised of:		
Cash	$2,204	$1,305
Short-term investments	2,022	967
	$4,226	$2,272
Supplemental cash flow information:		
Interest paid	$784	$874
Repayment of Saskatchewan Telecommunications debt by redemption of note receivable	-	1,000

See accompanying notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

Hospitality Network Canada Inc. (the Corporation) is incorporated under the *Business Corporations Act*, Saskatchewan. The Corporation is a subsidiary of SaskTel Investments Inc., which is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco). The primary activity of the Corporation is to provide entertainment and communication services to Canadian hospitals and long term care facilities.

The financial results of the Corporation are included in the consolidated financial statements of Holdco, a Saskatchewan Provincial Crown corporation. By virtue of its ownership structure, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The most significant policies are outlined below.

Consolidation

The consolidated financial statements include the accounts of the Corporation and the Corporation's 99% interest in Hospitality Network Canada Partnership with all significant inter-company transactions and balances being eliminated. The remaining 1% interest in Hospitality Network Canada Partnership is owned by Esterhazy Holding, Inc., a wholly owned subsidiary of Holdco.

Inventory

Inventory of equipment and supplies is valued at the lower of cost (first-in, first-out method) and replacement cost.

Property, plant and equipment

Property, plant and equipment is recorded at cost. Depreciation and amortization is provided over the estimated useful lives using the methods noted below:

	Method	Estimated useful life
Plant and equipment	straight-line	10 years
Office furniture and equipment	diminishing balance	7 – 10 years

With respect to property, plant and equipment acquired or constructed over time, the Corporation follows the policy of capitalizing related equipment, construction, and installation costs as plant under construction. These costs are then depreciated on a basis consistent with the Corporation's depreciation policy from the date the asset is substantially completed and put into productive use.

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies, continued

Deferred costs

Incremental direct selling costs related to obtaining specific contracts that, in the Corporation's view, have a clearly defined future market are deferred and amortized over the terms of the contracts. Deferred development costs relating to new product lines are amortized over the estimated period of benefit on a diminishing balance basis. Deferred installation and engineering costs incurred at the technical design stage of equipment installations are amortized using the straight-line method. The management of the Corporation periodically assesses the recoverability of these deferred costs with reference to expected future operations and will write off those deferred costs not considered recoverable.

	Method	Estimated useful life
Deferred selling costs	straight-line	4 - 7 years
Deferred development costs	diminishing balance	10 years
Deferred installation and engineering costs	straight-line	10 years

Finite-life intangible assets

Finite-life intangible assets acquired in a business combination are recorded at their fair values. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets.

	Estimated useful life
Customer contracts	8 years

Intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations, before income from continuing operations

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies, continued

Investment in capital leases

In certain situations, the Corporation leases equipment to its customers. Due to their nature, some of these leases represent a sale of such equipment and an investment in long-term accounts receivable. Accordingly, the Corporation records a sale and cost of goods sold for each capital lease upon delivery of the equipment to the customer. Financing charges included in the lease payments received are recorded as income over the life of the lease.

Revenue recognition

Revenue from the provision of entertainment and communication services is recognized at the time the service is provided. Revenue from the sale of equipment is recognized when the product is shipped in accordance with the terms of sales arrangements, title or risk of loss has been transferred, and pricing is fixed and determinable.

Stock-based compensation

Effective January 1, 2005 the Corporation adopted the recommendations in section 3870 of the CICA Handbook, *Stock-based Compensation and other Stock-based payments.* The standard provides guidance for the recognition of stock-based compensation and requires that it be measured at the fair value of the options granted. Adopting this section had no effect on previously reported earnings of the Corporation.

The Corporation had a stock based compensation plan for an officer of the Corporation. Compensation expense was recorded at fair market value based on options granted during the year with a corresponding increase in contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus was recorded as an increase to share capital.

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment, the carrying amount of goodwill, the carrying amount of intangible assets and the recoverability of deferred costs. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Notes to Consolidated Financial Statements

Note 3 – Acquisition by Holdco

Effective September 30, 2005, the Corporation became a wholly owned subsidiary of Holdco when the remaining minority interest of 6.1% was purchased. The additional investment by Holdco was $1.4 million. The Corporation's financial statements have been prepared to reflect the purchase price adjustments arising from this transaction. The principal adjustments made on the acquisition date to the historical financial statements of the Corporation to reflect Holdco's cost basis were:

a) The $1,041,052 excess of Holdco's cost basis over the value assigned to the net asset of the Corporation at the date of acquisition has been assigned to intangible assets and is being amortized on the straight-line basis over 8 years
b) The carrying value of goodwill was decreased by $733,912
c) Contributed surplus increased by $307,140
d) Preacquisition retained earnings of the Corporation have been credited to contributed surplus

Note 4 – Cash and short-term investments

Cash includes $212,000 (2004 - $190,000) that is pledged as collateral for a letter of credit relating to the guarantee of vendor payment for payroll. Restricted cash is not available for general corporate purposes.

Short-term investments consist of funds invested at an interest rate of 3.00% (2004 - 2.25%).

Note 5 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2005	2004
			(Thousands of dollars)	
Plant and equipment	**$16,792**	**$6,872**	**$9,920**	$10,075
Office furniture and equipment	**949**	**486**	**463**	340
Plant under construction	**2,403**	**-**	**2,403**	1,937
	$20,144	**$7,358**	**$12,786**	$12,352

Depreciation and amortization for the year totalled $1,666,817 (2004 - $1,598,192).

Notes to Consolidated Financial Statements

Note 6 – Deferred costs

	Cost	Accumulated amortization	Net book value	
			2005	2004
			(Thousands of dollars)	
Deferred selling costs	**$2,233**	**$1,228**	**$1,005**	$1,120
Deferred development costs	**414**	**278**	**136**	128
Deferred installation and engineering costs	**487**	**144**	**343**	299
	$3,134	**$1,650**	**$1,484**	$1,547

Amortization for the year totalled $355,382 (2004 - $314,763).

Note 7 – Intangible assets

	Cost	Accumulated amortization	Net book value	
			2005	2004
			(Thousands of dollars)	
Customer contracts	**$1,041**	**$33**	**$1,008**	$-
	$1,041	**$33**	**$1,008**	$-

Amortization for the year totalled $32,533 (2004, nil)

Note 8 – Long-term debt

	2005	2004
	(Thousands of dollars)	
Due to Holdco, unsecured, bearing interest at Holdco's average monthly borrowing rate plus 0.25%; no fixed repayment terms. The effective average interest rate for the year was 2.86% (2004 – 2.37%)	**$2,801**	$2,801
Due to Holdco, secured by all assets, bearing interest at 6.55%; repayable in blended monthly installments of $92,000; due March 2016	**10,336**	10,748
	13,137	13,549
Less current portion	**440**	412
	$12,697	$13,137

Notes to Consolidated Financial Statements

Note 8 – Long-term debt, continued

Approximate principal repayments due in the next five years are as follows:

	(Thousands of dollars)
2006	$440
2007	470
2008	500
2009	535
2010	572

Note 9 – Share capital

	2005	2004
	(Thousands of dollars)	
Authorized:		
Unlimited number of Class "A" common voting shares		
Issued:		
102,710 shares (2004 – 102,650 shares)	**$8,999**	$8,986

Stock option plan

The Corporation, pursuant to an agreement dated July 1, 2000, entered into a stock option plan that provided a grant of options to an officer of the Corporation to purchase 3,000 Class "A" common shares. The options vest over time and upon the attainment of certain earnings levels. In 2005, 60 options (2004 – 150 options) vested and were exercised for cash consideration of $0.01 per share. Subsequent to the exercise of these 60 options, the remaining 290 options expired. The following table provides additional information on stock options:.

	2005	2004
Outstanding stock options, beginning of year	**350**	500
Options exercised	**(60)**	(150)
Options expired	**(290)**	-
Outstanding stock options, end of year	**-**	350

Notes to Consolidated Financial Statements

Note 10 - Contributed surplus

	2005	2004
	(Thousands of dollars)	
Balance, beginning of year	**$1,143**	$1,143
Excess of values attributed to assets and liabilities over net assets at date of acquisition by Holdco (Note 3)	**307**	-
Stock options vested	**13**	-
Stock options exercised	**(13)**	-
Transfer of retained earnings, September 30, 2005	**324**	-
Balance, end of year	$1,774	$1,143

Note 11 – Items not affecting cash

	2005	2004
	(Thousands of dollars)	
Depreciation and amortization	**$2,055**	$1,913
Stock based compensation	**13**	-
Non-controlling interest	**26**	25
	$2,094	$1,938

Note 12 – Other operating items

	2005	2004
	(Thousands of dollars)	
Changes in non-cash working capital:		
Accounts receivable	**$428**	$(458)
Inventory	**(13)**	197
Prepaid expenses	**133**	(134)
Accounts payable and accrued liabilities	**(363)**	225
	$185	$(170)

Notes to Consolidated Financial Statements

Note 13 – Financial instruments

Credit risk

The Corporation has a sufficiently diversified customer base that is not subject to any significant concentration of credit risk.

Fair value

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

The carrying value of long term debt approximates its fair value. Fair value is determined as the amount at which long term debt could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities.

Note 14 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and the Saskatchewan Telecommunications Holding Corporation (collectively referred to as "related parties"). Also included are transactions with a corporation controlled by one of the Directors of Hospitality Network Canada Inc.

Routine operating transactions with related parties are settled at prevailing market prices (exchange values) under normal trade terms. These transactions and amounts outstanding are as follows:

	2005	2004
	(Thousands of dollars)	
Operating Revenues	**$327**	$330
Operating expenses	**734**	831
Interest income	**-**	25
Interest expense	**770**	849
Property, plant and equipment expenditures	**94**	212
Accounts receivable	**40**	29
Accounts payable and accrued liabilities	**2**	179

The Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases. Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Notes to Consolidated Financial Statements

Note 15 – Commitments and contingencies

The future minimum lease payments over the next five years under operating leases of the Corporation for equipment and premises rent are as follows:

	(Thousands of dollars)
2006	$721
2007	457
2008	110
2009	106
2010	73

The Corporation also has a franchise agreement with VistaCare Television Services of Canada Inc. (VistaCare) under which VistaCare operates television service contracts under the name of the Corporation in designated hospitals. In the event of VistaCare's failure to perform the obligations under the contract, the Corporation would be responsible to perform these obligations, in exchange for the rental proceeds of the contracts.

In the normal course of operations, the Corporation may become involved in various claims and litigation. While the final outcome with respect to claims and litigation cannot be predicted with certainty, it is the opinion of management that any resolution would not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

SaskTel